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Report Highlights:

Large-scale restaurants under franchise operation and broad-line distributors are rapidly growing at the expense of small, family-owned businesses. There is an increased emphasis on products with new tastes, added value, stable pricing and volume capability, and products with specifications geared specifically for the food service industry. As a result, the demand for imported products is growing.

Includes PSD Changes: No
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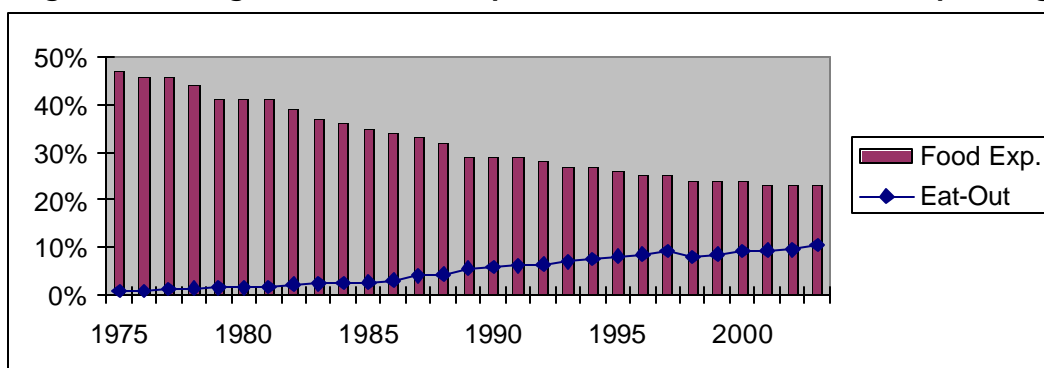
I. Market Summary

A. Executive Summary

Changes in Korean lifestyle and dietary culture coupled with increased consumer income have led to a rapid growth of the food service sector. Despite the on-going economic slowdown, monthly average per capita spending on eating outside of the home has continued to rise, reaching Korean won* (₩)74,849 in the third quarter of 2004, up 11 percent from the same quarter in 2003. In other words, each Korean spent 44 percent of his/her food expenditure, or 11 percent of total spending, dining out. Although the share of food expenditure in total spending has been continually falling, the share spent on eating-out, relative to both food expenditure and total spending, has consistently increased.

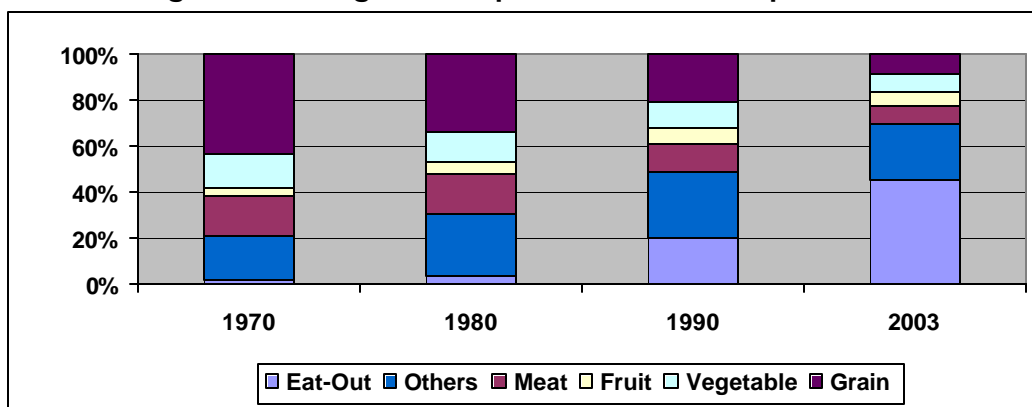
* Note: US \$1 = Korean won (₩)1,025, 12/31/04.

Figure 1. Eating-out and Food Expenditure as a Share of Total Spending



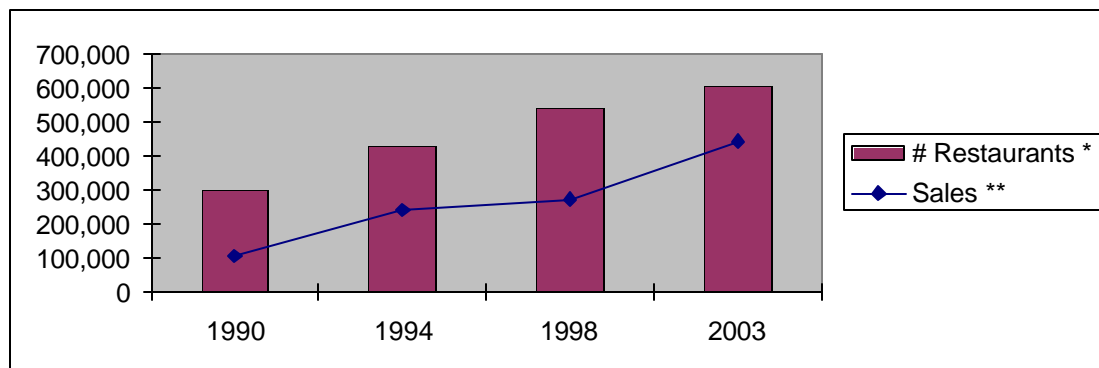
Source: Korean Government Statistics (Dec. 2004)

Figure 2. Change in Composition of Food Expenditure



Source: Korean Government Statistics (Dec. 2004)

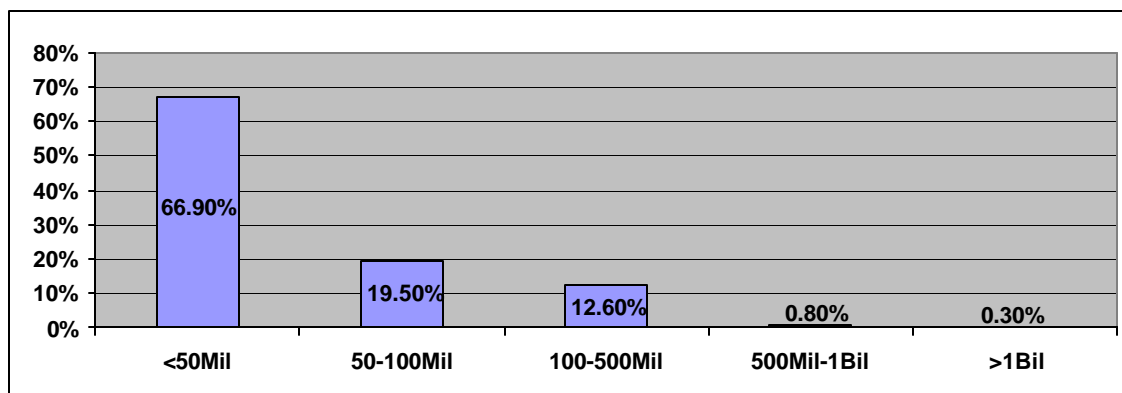
The Korean food service sector garnered ₩44.3 trillion of cash register sales in 2003, up 9 percent from the previous year. The total number of restaurants showed a slight 2 percent-increase to 605,614 with 1.59 million employees. However, 90 percent of restaurants were small family-owned businesses that hire less than five employees. In addition, about 64 percent of restaurants made less than ₩50 million of annual cash register sales.

Figure 3: Growth of the Korean Food Service Sector

* Note: Number of restaurants

** Note: Annual cash register sales (unit: ₩100 million)

Source: Korean government statistics (Dec. 2004)

Figure 4: Breakdown of Restaurants by Annual Sales (Year 2001*)

* Note: Year 2001 is the most recent data available.

Unit: Annual cash register sales in Korean won

Source: Korean Government Statistics (Dec. 2004)

Restructuring, fueled by increasing competition and the on-going economic slowdown, has led to a rapid growth of restaurants under chain or franchise management of various formats, including full-service family restaurants, quick-service fast food restaurants, institutional restaurants and bars, at the expense of small-scale family-owned establishments. At the same time, consumers' increasing demand for new and international tastes has resulted in a diversification in new-to-market recipes, products and dining formats. Streamlining of the supply chain is another area in which the sector has made significant progress in recent years. 'One-stop, broad-line' distribution is rapidly growing, as several conglomerates are making heavy investments in the market, replacing traditional multi-layered channels comprised of independent wholesalers and wet markets.

The growth of franchise restaurants is resulting in increased demand for products with new tastes, stable pricing, volume capability, added-value, and customized food service specifications, characteristics where U.S. products are competitive. In addition, the premium restaurant segment is expected to lead the demand for U.S. products in the coming years. The outlook for U.S. exports is excellent for pork meat, processed meat, poultry products, seafood, fresh fruits, processed fruits and nuts, processed vegetables, dairies, alcohol beverages, sauces and condiments, organic foods and roasted coffee. U.S. beef products and uncooked chicken meat, which are currently banned, also have good potential once the

market is reopened. Other items that are currently under restrictive import regimes, such as rice and fresh potatoes, should gradually gain greater export volumes as a result of on going trade liberalization.

B. Advantages and Challenges for U.S. Exports

Advantages	Challenges
1. This is a growing market where new ideas and trends are eagerly tried and accepted, leading to greater opportunities for new-to-market products.	1. Consumers in general maintain a negative public view on the quality and safety of imported foods. Imported foods are often associated with contaminations and potential food-borne diseases. In addition, import opponents often use food safety issues as a tool to restrict imports.
2. Consumers are looking for new and international tastes. Korean consumers are familiar with American style menus and restaurant concepts.	2. Many products, such as fresh potatoes, honey, and apples, are still under strict trade barriers and, thus, have limited market access.
3. Restaurants under chain operation, as well as broad-line distribution, are leading growth in the sector.	3. Although changing, price is still the most important factor in procurement decisions. Unfortunately, few decision makers understand the overall benefit of using higher quality, value-added products.
4. On-going lifting of import barriers improves the market accessibility and price competitiveness of imported U.S. products.	4. Many U.S. products directly compete with items from export-oriented countries, including China, Australia, Thailand, and New Zealand, which employ more aggressive marketing strategies.
5. On-going depreciation of the U.S. dollar against Korean won and other international currencies makes U.S. products more price-competitive.	5. U.S. suppliers often find it difficult to supply customized product specifications required by Korean food service buyers mainly because: 1) the ordered volume is too small to justify the needed changes in the manufacturing process, labeling, etc.; or, 2) the supplier has little understanding about Korean recipes and may not know how to meet the specifications.

II. Road Map for Market Entry

A. Entry Strategy

? The following is a list of key components of market entry strategies that have been proven effective for new-to-market suppliers:

- Finding an established importer who has an effective sales/marketing and distribution network focused on target customers.
- Development of products, including making changes to existing recipes and specifications, that meet consumer tastes and trends.

- Selling new-to-market recipe ideas, not products.
- Maintaining price competitiveness by trading in a large volume and/or adding value to the product.
- Quick response to changes in the supply and demand situation in the market.

? Any U.S. supplier seeking opportunities in the Korean food service sector first needs to understand the sector's specific needs. Dishes served in Korea largely reflect the contemporary dietary culture of Koreans and may require different specifications, even when the products are used for similar dishes served in the U.S. Meeting the sector's specific needs could mean anything from modifying cuts and portion sizes to reducing the saltiness to adding or deleting some ingredients. Considering the rapid evolution of the sector, it is also important to be kept informed of the changing tastes of Korean consumers to stay ahead of the competition. A rule of thumb is that new food trends in Korea are two to five years behind Japan, although it may not always be the case.

? Because of the many variables involved, there is no one best way to enter the Korean market. Success is unlikely, however, without proper local representation and catered attention. What form this local representation takes depends on the nature of the exporter, the product, and the local distribution channel. Unless the U.S. supplier has a specific position on this, working with an established broad-line importer on a commission basis during the initial stage of market entry is highly recommended. Established importers are well aware of up-to-date market demand/supply intelligence, business practices, local business laws, distribution channels, and, most of all, are the best source of current information on government labeling and inspection regulations for imported foods. A brief report on the Korean government's regulations for imported food products (FAIRS Report #KS4039) can be found in the ATO Seoul website (www.atoseoul.com) or USDA/FAS website (www.fas.usda.gov). ATO Seoul also maintains listings of local importers by product, which are available to U.S. suppliers upon request at no cost. Exhibiting in a local food trade show is a cost-efficient way to meet with a large number of key traders in the sector. Currently, the Food & Hotel Korea (FHK) is the only local show endorsed and supported by U.S. Department of Agriculture/Foreign Agricultural Service (FAS). Detailed information about the trade-only FHK show can be found in its website (www.fhko.com).

B. Market Structure - Distribution Channel

? Most of the small independent, family-owned restaurants still procure products, including imported products, from the traditional distribution channel involving multiple layers of wholesalers and wet-markets, partly for the purpose of concealing transaction data and, thus, avoiding income tax. Tax reduction on credit card and debit card use is a policy newly introduced by the local government in an effort to improve transparency within the supply chain.

? Due to the outstanding growth of local restaurant chains, use of the modern broad-line distribution channel is rapidly expanding. Currently, about four large conglomerate businesses, all committed to becoming the "Sysco of Korea", are operating nationwide distribution networks with modern temperature-controlled warehouses and truck fleets. They supply a wide variety of products mainly to large-scale chain restaurants and hotels. There is also a third-party logistics service involved in the supply chain. However, these broad-line distributors are focusing mainly on high-volume products and, thus, are not capable of genuine 'one-stop' distribution service. Consequently, restaurants that use broad-line distributors also transact with several 'specialty' suppliers that provide specific small-volume, high-value products. Following is a brief description of the way products are procured by broad-line distributors:

- Long-storage agricultural products (such as onions, dried pepper, carrots, and potatoes) are procured from local contract farms and/or from the National Federation of Agricultural Cooperatives(NACF).
- Fresh vegetables are procured from local contract farms, usually large-scale green houses operated near warehouses.
- Fresh vegetables with high seasonal supply fluctuations (such as Chinese cabbage and radish) are procured through middlemen in the wholesale auction market using price bidding.
- Locally produced meat is procured through middlemen in the wholesale meat auction market using price bidding.
- Local processed vegetables (such as frozen, canned, and pickles) are procured from domestic manufacturers every one to three months using price bidding.
- Local processed foods (such as oils and sauces) are procured from domestic manufacturers on a yearly contract.
- Imported food products of all types are procured from importers or, to a lesser extent, directly from overseas suppliers. Broad-line distributors prefer to import directly from overseas suppliers for high-volume products, such as meat, seafood, and canned vegetables, while using middlemen for low-volume or high seasonal products .
- Imported products regulated by quotas, including fresh potatoes, onions, grains and honey, are handled by the Agri-Fishery Marketing Corporation (AFMC), a government agency under the Ministry of Agriculture and Forestry. In general, the set annual import quota is divided evenly among the importers who signed up for the product. In some cases, the quota is allocated to importers by auction. A broad-line distributor may acquire an import quota allocation and import on its own or purchase from other importers who acquired an allocation.

Table 1: A List of Broad-line Food Service Distributors (Year 2003)

Company Name	SKU	Annual Distribution Volume
CJ Food System Co.	20,000 items	₩412 billion
Our Home Co., Ltd.	N/A	₩100 billion
Samsung Everland Co., Ltd.	4,000 items	₩110 billion
Doosan Trading Corp.*	200 items	₩30 billion
Foodmerce Co.	10,000 items	₩103 billion
KTSC Co., Ltd.	3,000 items	₩172 billion

* Note: Food service distribution division only.

Source: Korea Food Distribution Yearbook 2004, Industry Sources

? The local food processing industry is an important supplier to the food service sector. Although food processors are heavily focused on retail products, more and more are shifting attention to the food service business to capitalize on the growth of that sector. In particular, major food processors have developed strategic alliances with broad-line distributors and have launched co-packed brands for the distributors. While large portion of these co-packed products are simply the same retail products in bigger volume packages, some are uniquely developed exclusively for the food service market, such as prepared soups, pickles, and sauces. CJ, Daesang, Ottogi, and Dongwon are some of the leading players in this area. It is expected that increased demand for prepared products by the food service sector will attract more processors to join these companies in the future. Products from local food processors are generally distributed through multiple layers of wholesalers before reaching the end user unless they are bound directly for broad-line distributors.

? Discount retailers, hypermarkets and membership warehouse clubs are also an important distribution channel for the food service sector, as many small, family-owned restaurants procure products there. Currently, there are about 250 discount stores nationwide, which, considering the size of Korean market, is thought to be the saturation point. E-mart, a local chain, is the leading player, while four international chains, Carrefour, Wal-Mart, Tesco, and Costco, form the second tier. In particular, Costco openly targets small-scale restaurants as a major customer group.

? Development of the modern food service distribution system in Korea is an outcome of ongoing market liberalization. It was not until the early 1990's that conglomerate businesses were allowed to enter the food service sector. These are now the key influence behind the outstanding growth of chain and franchise restaurants, as well as the broad-line food distribution business. Imports and distribution of food products to the food service sector were under a monopoly system of the Korea Tourist Supply Center Co. (KTSC) up until the early 1990's.

C. Sub-Sector Profiles

1. Hotel Segment

Table 2: Lodging Industry Market Share (Year 2001)

	Number of Company	Number of Room	Cash Register Sale
Hotels	1.8%	10.1%	68.0%
Inns	78.5%	77.6%	23.1%
Resort Condos	0.3%	4.3%	6.1%
Others	19.4%	8.0%	2.8%
Total	34,317 companies	584,304 rooms	₩6,545,113 million

Note: Year 2001 is the most recent data available

Source: Korean government statistics 2004

Table 3: Hotel Segment Statistics Broken Down by Number of Rooms (1999-2003)

Category		<50	50-100	100-300	>300	Total
Number of hotels	2003	162	221	117	35	535
	1999	332	276	118	25	751
	Change	-51.2%	-19.9%	-0.8%	+40.0%	-28.8%
Number of employees	2003	2,904	7,216	13,299	18,445	41,864
	1999	4,431	9,659	14,317	10,591	38,998
	Change	-34.5%	-25.3%	-7.1%	+74.2%	+7.3%
Cash register sales*	2003	108,130	336,371	778,861	1,940,574	3,163,936
	1999	155,076	373,573	716,976	831,143	2,076,768
	Change	-30.3%	-10.0%	+8.6%	+133.5%	+52.3%
Sales from room sales*	2003	46,058	152,796	331,202	628,683	1,158,739
	1999	56,855	159,171	253,220	196,538	665,784
	Change	-19.0%	-4.0%	+30.8%	+219.9%	+74.0%
	2003	6,181	14,586	18,597	16,586	55,950

	2003	6,181	14,586	18,597	16,586	55,950
	Change	-15,458%	-17,731%	18,020	-15,697%	58,886
Number of guests**	2000	5,037,564	7,650,031	8,776,468	9,892,972	31,357,035

* Note: Unit in million won

** Note: Year 2000 is the most recent data available

Source: Korean government statistics 2004

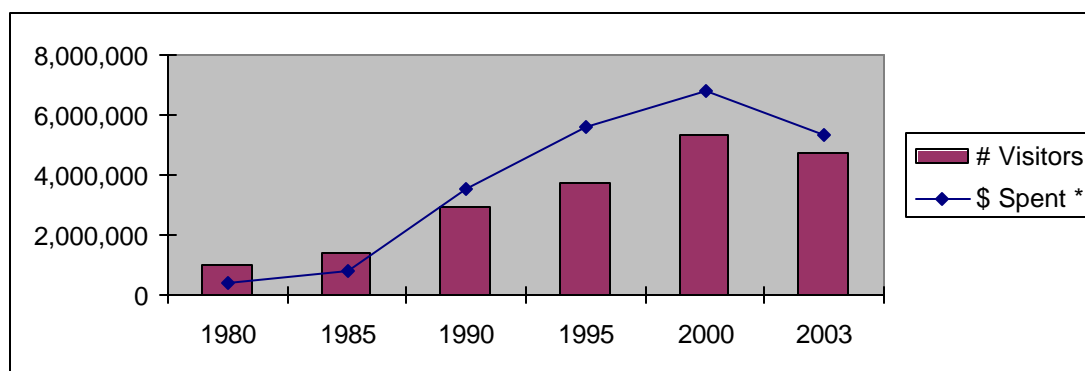
? There were 535 hotels in Korea at the end of 2003, 216 less than five years earlier. This significant drop was mainly due to the decrease in the number of small-scale hotels with less than 50 guestrooms. However, the growth of large-scale hotels compensated for the loss of hotels and rooms, yet resulted in an outstanding growth of cash register sales of the sector, which earned ₩3.16 trillion of cash register sales in 2003, up 52 percent from 1999. The hotel segment is estimated to comprise about 60 percent of total annual lodging industry sales in Korea. Another 30 percent of industry sales are generated by 30,000 inns, while resort condos and recreational facilities account for the remaining 10 percent.

? Competition precipitated industry restructuring, favoring the expansion of large-scale hotels at the expense of family-owned, independent small-scale hotels. With five star hotels expanding in both regional markets and Seoul, many four star hotels have joined international management franchises, such as Hyatt, Ramada, and Marriott, to remain competitive in price and management skill. Another group of middle-scale hotels under the umbrella of budget-format franchises, such as Best Western, Day's Inn, Ramada Inn, and Holiday Inn, are being developed to meet the needs of low-budget tourists and business travelers. Rapid growth of untraditional lodging formats, in particular service residences, pension homes, by-the-hour motels, and hot-spa houses, has also resulted in the closings of many small-scale hotels and inns.

? Although currently experiencing a business slowdown due to the on-going sluggish local and world economic situations, the hotel segment is expected to maintain a healthy growth trend in the coming years both from business and tourism travelers. In particular, the five-work-day system, which is scheduled to become a national standard for most Korean workers in mid-2005, will significantly boost domestic tourism. In addition, an increasing number of foreign travelers to Korea are anticipated.

? A good number of new hotels are currently under construction or are planned to meet the increased demand for additional hotel rooms. According to a government study, the market will need additional 16,000 guestrooms by 2010 in Seoul metropolitan area alone. A hotel belt in Goyang-city, a satellite town of Seoul, is currently under development by the government to meet the need. The shortage of hotel rooms is expected to be worse in regional markets where new industrial or tourist districts are under development. Recognizing the emerging opportunities, local conglomerates have unveiled plans for new hotels. A 106 story hotel currently under construction by Lotte Hotel in Busan, which, upon completion, will be the tallest hotel building in the world, is an example of investments being made in the sector.

Figure 5: Foreign Travelers Visiting Korea (1980-2003)



* Note: Unit in \$1,000

Source: Korean government statistics 2004

? The hotel sector, especially five and four star hotels that operate in-house, premium restaurants, has played a leading role for the entry of new-to-market food products and recipes. It also has served as an efficient venue for promotional activities, including menu promotions, product launchings and product seminars. Currently, food and beverage sales are estimated to comprise 40-50 percent of total sales in five and four star hotels. Some leading hotels, including the Shilla and the Westin Chosun, have greatly expanded their food service businesses and currently operate stand-alone food outlets of various formats outside of the hotel, including microbrew pubs, food courts, coffee shops, bakery shops and premium gourmet restaurants. Although the role played by hotels in the food service market is on a gradual decline due to the growth of restaurants on the street, it is likely that the sector will remain the leading distribution channel for premium, high-quality imported food and beverage items.

2. Restaurant Segment

Table 4: A Brief History of the Restaurant Industry in Korea

Year	GNP*	Major Events
1900 - 1950's	N/A	? Birth of modern commercial restaurant industry. ? A total of 166 restaurants in business in 1945.
1960's	\$100 - \$210	? Most consumers had very low income and limited food supply. ? Western foods, mainly wheat flour and dried milk, first introduced to the mass public through the food aid by the UN and U.S.
1970's	\$248 - \$1,644	? A large number of small mom-and-pop restaurants opened in metropolitan cities. ? Rapid improvement in the diet of the general public due to economic development. ? Opening of the first franchise restaurant chain, Nandarang (1979) and the first fast food restaurant chain, Lotteria (1979). ? Imported foods become available commercially to hotels with the establishment of the Korea Tourist Supply Center Co. (KTSC), a monopoly import agency (1978)

1980 - 1985	\$1,592 - \$2,158	? Western menus, with limited variety, penetrated to the general public. ? Rapid expansion of franchise restaurants (mainly hamburger, noodle, fried chicken, and draft beer pubs). ? The first wave of international restaurant chains entered the market: Americana (1980), Burger King (1982), Wendy's (1984), KFC (1984), Pizza Hut (1984), Baskin Robbin's (1985).
1986 - 1990	\$2,194 - \$4,197	? The Asian Games in 1986 and the Olympic Games in 1988, both held in Seoul, introduced a wide variety of international recipes to the market. ? Rapid increase of restaurants and drinking places with western theme. ? Introduction of institutional food service business: Seoul Catering (1989), Our Home/LG Mart (1989). ? More international restaurants entered: McDonald's (1986), Denny's (1987), Pizza Inn (1988), Cocos (1988), Crown Bakery (1988), Chicago Pizza (1988), Domino's Pizza (1989).
1990's	\$5,883 - \$10,076	? Conglomerates were allowed to enter the food service industry. ? Diversification of food service industry with new formats and menus. ? Hardies (1990), TGIF (1991), Hagendaaz (1991), Subway (1992), Ponderosa (1992), Sizzler (1993), Mister Pizza (1993), Sky Lark (1994), Kenny Rogers (1994), Popeye's (1994), LA Farms (1994), Bennigan's (1995), Tony Roma's (1995), Planet Hollywood (1995), Marché (1996), Hard Rock Café (1996), Outback Steak (1997), Chili's (1997).
Early 2000's	\$10,000 - ?	? Restaurants under chain or franchise management led the growth of the sector, while increasing competitive pressure resulted in shrinking of mom-and-pop independent restaurants. ? Rapid growth of broad-line food service distribution. ? Further diversification in restaurant formats and menus, including take-out, food court, fusion cuisine, foreign indigenous cuisine, and wine.

* Note: GNP, Gross National Production, Per Capita

Source: Na, J.K., Understanding Food Service Industry, 1998.

? Although declining in number due to the rapid growth of restaurants serving international cuisines, traditional Korean food restaurants are still the most popular. It is, however, becoming more difficult to distinguish Korean menus from foreign ones, as more diverse recipe ideas and food styles are introduced, fusing traditional menus with new-to-market recipes and ingredients. At the same time, foreign dishes served in restaurants in Korea are somewhat 'Koreanized' in terms of the taste, ingredient, and cooking style. In particular, local consumers prefer less salt, fat and oil, while eating more hot spices, vegetables, seafood and soup.

? Due to the high population density, delivery service is quite common in metropolitan areas of Korea. For example, Pizza Hut chain is realizing 70 percent of its sales from home delivery. The high cost of real estate and rent is also making more small-scale restaurants focus on the home-delivery market.

? Changing consumer tastes and increasing competition are forcing the following changes in the restaurant segment.

- Reducing operation cost by using more part-time employees, adopting a central kitchen facility, standardization of recipes, and utilizing Information Technology solutions such as POS (Point Of Sales) inventory system.
- Maintaining a smaller stable inventory of quality products at lower cost by switching to broad-line suppliers and introducing further processed products.
- Developing new menus with diverse foreign indigenous cuisines and new restaurant designs incorporating trendy concepts or themes.
- Greater focus on health and food safety by introducing functional and organic ingredients, HACCP certification, and responding quickly to food scares in the market.
- Marketing more creatively by conducting cross-promotions with non-food businesses and menu promotions targeting seasonal markets.

? It is notable that Korea has an exceptionally high number of bars and pubs. The newest trends in the bar and pub segment include the introduction of micro-brew pubs and the growth of bars under franchise management. Although decreasing among the health-conscious older generation and young professionals, drinking is still considered a very important part of Korean business and social life. According to government statistics, each Korean adult over the age of 19 consumed 26 liters of Soju (local hard liquor) and 53 liters of beer in 2003, up 5 percent and 81 percent respectively from ten years before. The rapid growth of wine and other low-alcohol beverages has come at the expense of hard liquors. Recently, the number of expensive drinking saloons and the consumption of premium whisky has significantly declined as a result of a new government regulation reducing the tax deduction for corporate entertainment spending.

Table 5: Break Down of Restaurant Industry by Type of Restaurant (Year 2001*)

Type of Restaurant	No. of Restaurants	Annual Sales	No. of Employees
Full Svc Korean Restaurants	45.3%	43.1%	44.6%
Full Svc Chinese Restaurants	4.8%	4.5%	5.3%
Full Svc Japanese Restaurants	1.0%	2.8%	1.9%
Full Svc Western Restaurants	2.6%	4.9%	4.0%
Institutional Feeding Restaurants	0.5%	2.4%	1.7%
Quick Svc Western Restaurants	4.8%	7.9%	6.0%
Quick Svc Korean Restaurants	9.8%	5.4%	7.2%
Bars and Pubs	21.5%	19.6%	20.1%
Bakery Shops	1.7%	2.2%	1.8%
Tea & Coffee Shops	6.7%	4.6%	5.9%
Total	505,241	₩ 34,245,594 mil	1,341,528

* Year 2001 is the most recent data available
Source: Korean government statistics 2004

? The growth of quick service (fast food) restaurants has stagnated in recent years due initially to the on-going economic slowdown and consumers being increasingly concerned about healthy eating. This was followed more recently by concerns about beef, due to BSE, and chicken, due to avian influenza, which further reduced consumer confidence in fast food. As a result, many quick service restaurants are in serious financial difficulty and some have and are going out of business, such as Wendy's and BHC fried chicken fast food chain. Lowering prices and introducing new, healthier menus are the two major counter measures being implemented by the leading fast food companies. In spite of the challenges facing the fast food industry, new restaurants with new recipes, mostly under franchise management, are continually entering the market, reflecting the strong consumer demand for more diverse menus with the quick service format. A good example is the late 2004 launching of the Krispy Kreme Doughnut chain by Lotte. According to a Korean government survey, 135,000 consumers, which is 0.27 percent of the population, eat fast food at least once a day. Another survey shows that 2.6 percent of Korean children eat fast food at least once a day.

Table 6: Profile of Major Quick Service Western Restaurant Chains (Year 2002)

Company	Brand	Annual Sales	No. of Outlets	Change in 2002
Lotteria	Lotteria	₩530 billion	850	+100
Shinmac	McDonald's	₩280 billion	361	+40
Genesis	BBQ	₩310 billion	1,350	-50
Doosan	KFC	₩250 billion	226	-10
	Burger King	₩93 billion	114	+1
TS Haemaro	Popeye's	₩130 billion	211	+26

Source: Korea Food Distribution Yearbook 2004

Table 7: Profile of Major Family Restaurant Chains (Year 2002)

Company	Brand	Annual Sales	No. of Outlets	Change in 2002
Lotte	TGIF	₩75 billion	20	+1
Rise On	Bennigan's	₩70 billion.	15	+3
Amoje	Marché	₩60 billion	15	+3
CJ Foodvill	Sky Lark	₩41 billion	46	+24
	VIPS	₩37 billion	11	+3
Ojjung	Outback Steak	₩60 billion	23	+7
Sunat Food	Tony Romas	₩14 billion	6	+1
Barons	Sizzler	₩12 billion	4	+1

Source: Korea Food Distribution Yearbook 2004

Table 8: Profile of Major Pizza Restaurant Chains (Year 2002)

Company	Brand	Annual Sales	No. of Outlets	Change in 2002
Pizza Hut Korea.	Pizza Hut	₩300 billion	300	+50
Mister Pizza Korea	Mister Pizza	₩10 billion*	177	+17
DPK International	Domino's Pizza	₩80 billion	196	+35

* Note: Sales from the 20 outlets owned by the franchise

Source: Korea Food Distribution Yearbook 2004

Table 9: Profile of Major Coffee Shop Chains (Year 2004)

Company	Brand	Annual Sales	No. of Outlets	Change in 2002
Starbuck's Korea	Starbuck's	₩44 billion	58	+24
Rosebud	Rosebud	₩10 billion	203	+73
Coffeebean Korea	Coffeebean	N/A	20	+14

Source: Korea Food Distribution Yearbook 2004

3. Institutional Food Service Segment

Table 10: Profile of Major Institutional Food Service Companies (Year 2003)

Name of Company	Annual Sales	No. of Outlets	Change in 2003	No. of Meals Serving Daily
Our Home	₩300 billion	500	+82	500,000
Samsung Everland	₩340 billion	450	+50	450,000
CJ Food System	₩218 billion	629	-30	420,000
G-Net (Hyundai)	₩180 billion	300	+50	180,000
Shinsegae Food System	₩125 billion	350	+90	150,000
Arakor	₩75 billion	270	+50	250,000
ECMD	₩81 billion	250	+30	18,000
Hanwha Development	₩119 billion	205	+18	160,000

Source: Monthly Food Journal (Dec. 2004 Issue)

? Institutional food service restaurants are growing, as more office workers and students, seeking cheaper meal options, are switching to in-house contract feeding restaurants for their lunches and dinners. The cash register sales for 2004 were estimated at ₩5.8 trillion, about 50 percent of which was taken in by third-party commercial institutional food service providers. Another half of the market was taken by restaurants directly operated by the company or school. Commercial institutional food service providers are expected to further

increase their market shares in the coming years, as more organizations seek cheaper and more efficient way to provide quality meals for their employees and students.

? In general, the rapid growth of the institutional feeding restaurant segment is mainly led by a handful of players, all of them subsidiary businesses of local conglomerates. Focusing on big volume clients to gain economy-of-scale, the leading players are closing down their small-scale outlets, leaving behind room for smaller competitors to enter and grow. Especially schools and hospitals are changing to smaller institutional providers.

? Most of the leading institutional feeding companies have also diversified to encompass regular restaurant businesses, including food courts, cafeterias, bars, coffee shops, bakery shops, and premium restaurants. In addition, the leaders have also entered the food service distribution business, serving outside restaurants in an effort to achieve greater buying power. However, products distributed by these companies are often limited to those that they themselves use in large volumes. It is anticipated that the distribution arms of these companies will someday themselves evolve into separate broad-line food service distribution subsidiary companies handling wider variety of products.

? The cost of food products comprises about 60 percent of the total operation cost in an institutional food service business, which is much higher than in a regular restaurant (about 30 percent). Consequently, companies in this segment are interested mainly in products with low price, value and stable supply. Imported products, therefore, are mainly from China, Australia and South Asian countries. Leading companies are also currently trying to incorporate more further-processed products in an effort to reduce labor and overhead costs.

III. Competition

? Domestic products offer stiff competition for many U.S. products. Although limited in variety, Korea produces considerable amount of raw agricultural products, including rice, fresh vegetables, fruits, seafood, pork, chicken, egg and fluid milk. In addition, Korea has a strong processed food industry that manufactures a wide variety of products from processed meat and seafood to sauces and oils to beverages and cookies. For raw agricultural products and input ingredients for the local processing industry not grown or manufactured in Korea, U.S. products face increasing competition from imports from other countries. Products from competitor countries, including China, Australia, Chile, and Thailand, in general have lower prices than U.S. products and, thus, are quickly building up their market shares. China, for example, has become the leading supplier of fresh and processed vegetables, sauces and spices, seafood, and grains to the Korean food service sector. In addition, increased demand for more diverse international cuisines and recipes are translated into growing demand for imported products from more diverse origins, including European and South Asian countries.

? The lifting of import barriers directly affect competition in the Korean market. Many local agricultural products lose price and availability competitiveness when protective import tariffs and quotas are removed. With that trend, however, food safety issues are becoming more important factors negatively impacting the accessibility of imported products to Korean buyers. In an effort to maintain stable supply, therefore, food service distributors frequently work with more than two different countries for major items, such as chicken meat and beef.

IV. Best Product Prospects for U.S. Exporters

A. Products Present in the Market Which Have Good Sales Potential

1. Pork meat (chilled and frozen belly cut): Due to the import ban on U.S. beef since December 2003, many beef restaurants have switched to pork menus, resulting in a strong

demand for additional imports. Although Korea has a large domestic supply of pork meat, highly concentrated demand for the belly cut has resulted in a strong need for imports. It is interesting to note that much of the meat is distributed frozen, as restaurants generally want longer shelf life. During 2004 (January-November), total pork meat imports increased 78 percent from the previous year, to \$300 million. Imports from the U.S. also showed a sharp increase of 165 percent to \$33 million.

2. Processed meat (sausages and hams): Processed meats are mainly served in bars and buffet restaurants. Among the total \$26 million of processed meat imported in 2004 (Jan.-Nov.), U.S. products had a 33 percent market share.

3. Chicken meat (frozen and fully cooked): Although overall demand for chicken meat significantly declined during 2004 due to the public food scare caused by avian influenza (AI), Korea remains an excellent market for chicken products. Although only fully cooked U.S. poultry products are currently exportable to Korea, technical discussions are underway to reopen the market to uncooked, mainly frozen, U.S. poultry meat. Demand for further processed poultry products is expected to grow quickly, as more restaurants understand the cost savings of value-added items. Conversely, imported fresh chicken meat rarely enters the Korean market due to the short shelf life and the strict sanitary standard (zero tolerance on E-coli contamination) on imported fresh meat. Pre-AI import volumes of U.S. chicken meat were \$30-\$50 million annually.

4. Seafood (frozen and processed): Korea is a major seafood market with good growth potential for imported products. The domestic supply is decreasing due to the depletion of nearby fishery resources and increased international restrictions on deep-sea fishing. Total imports of fishery products by Korea amounted to \$1.97 billion in 2004 (Jan.-Nov.), up 16 percent from the previous year, with imports from the U.S. totaled \$119 million. Major species currently imported from the U.S. include: Alaska Pollack, Pollack surimi, Pollack roes, skate, mackerel, hagfish, halibut, scallop, cod, Pacific salmon, angler fish, rock fish, and prepared sea cucumber. It is notable that demand for processed products (fillet, dried, surimi, and cooked) are rising. Processed products accounted for about 21 percent of total seafood imported in 2004. Several major seafood importers are even interested in establishing processing plants in the exporting countries.

5. Processed fruits and nuts: Processed fruits and nuts are gaining consumer popularity for their natural and healthy image. Introduction of new recipes that require processed fruit and nut ingredients is resulting in demand for more diverse products. Total imports of processed fruits and nuts increased by 8 percent to \$152 million in 2004 (Jan.-Nov.), while imports from the U.S. totaled \$22.6 million, up 3 percent. Products currently imported from the U.S. include: dried, frozen, or preserved prune, cranberry, cherry, strawberry, grape, blueberry, walnut, almond, pistachio, and peanut. Fruit juices also have a big market in Korea, as U.S. products, at \$31 million imports in 2004 (Jan.-Nov.), took a 33 percent import market share.

6. Fresh fruits: Korea is an excellent market for U.S. oranges. Demand for imported oranges is increasing in both food service and retail sectors. Currently, U.S. and South Africa are the only two countries allowed to export oranges to Korea. In spite of a temporary import ban on oranges from two California counties (Tulare and Fresno) due to a fungus problem, which has recently been lifted, orange imports from the U.S. in 2004 (Jan.-Nov.) increased 21 percent from the previous year, to \$133.5 million. Other major U.S. fruits currently imported into Korea include table grape, lemon, cherry, and grapefruit.

7. Vegetables (fresh and processed): Although Korea is self-sufficient in many categories of fresh produce, seasonal fluctuations in supply and unfavorable growing condition for foreign varieties are resulting in demand for imports. Although China has emerged as the leading

supplier of vegetables, both fresh and processed, there is strong demand for high-quality U.S. products. Produce imported from the U.S. includes: potato (\$4 million in 2004 (Jan.-Nov.)), onion (\$6 million), lettuce (\$1 million), dried vegetables (\$25 million), frozen vegetables (\$2 million), preserved tomato (\$8.5 million), and pickled vegetables (\$48 million).

8. Dairy Products (cheeses): More dishes with dairy ingredients have and are being introduced to the market, resulting in increasing demand. Imports of cheese in 2004 (Jan.-Nov.) amounted to \$108 million, up 30 percent from the previous year, while imports from the U.S. also rose by 25 percent to \$18 million. The demand is expected to expand in the near future as increasing numbers of consumers develop tastes for specialty cheeses.

9. Alcohol Beverages (wine, beer, and hard liquors): With the large number of bars and pubs, imported alcohol beverages have a good opportunity in the food service sector. Especially as the demand for products with health benefits and lower alcohol content is rapidly growing. Wine imports increased 35 percent in 2004 (Jan.-Nov.) to a record-high \$52 million. Imports from the U.S. also set a new high at \$7.3 million, up 20 percent. Among the \$13.4 million of beers imported in 2004 (Jan.-Nov.), U.S. brands, at \$3.3 million, took 24 percent of the import market share. Imports of U.S. whiskies totaled \$2.4 million in 2004, which was only 1.1 percent of total hard liquor imports.

10. Roasted Coffee: A large number of franchise coffee shops opened in recent years, resulting in an increased demand for imported coffee. Imports of roasted coffee beans increased 34 percent during 2004 (Jan.-Nov.) to \$8.6 million, while imports from the U.S. increased by 14 percent, to \$4.4 million.

11. Sauces and Condiments: With the introduction of more foreign recipes, the demand for imported sauces and condiments is rising. Imports from the U.S. in 2004 (Jan.-Nov.) totaled \$11.4 million, while total imports increased by 10 percent, to \$81.9 million.

B. Products Not Present in Significant Quantities But Which Have Good Sales Potential

1. Beef meat and edible offal: Before the import ban, annual export of U.S. beef products to Korea amounted to around \$900 million. It is expected, once the market is reopened, that U.S. beef products will recover export volume and market share.

2. Lamb meat: More consumers are becoming familiar with lamb meat.

3. Processed turkey meat: An increasing number of sandwich shops are serving turkey sandwiches.

4. Premium seafood: Products such as lobster, crab (King, Snow, and Dungeness), black cod, and Sockeye salmon have good potential in Korea, due to increased demand from affluent consumer group who seek new healthier meal alternatives.

5. Processed eggs (fluid, frozen, and flour): More restaurants are expected to switch to processed eggs products from shelled eggs in the near future.

6. Fresh coffee beans: Imports of fresh coffee beans increased by 10 percent during 2004 (Jan.-Nov.) to a record-high \$78.5 million. Unfortunately, most beans are from South American and Asian countries, while U.S. products currently take a very small portion of the market. With diversifying consumer tastes, U.S. products, especially from Hawaii, are expected to gain future market share.

7. Prepared processed food: Demand for prepared products, such as frozen soups and fully cooked chicken meat, is gradually picking up. As more restaurants understand the benefit and quality of prepared products, interest in U.S. products is likely to increase.
8. Ingredients for micro-brew beer: Demand for ingredients for micro-brew beer is likely to increase with the addition of more micro-brewery restaurants, which are gaining in popularity.
9. Organic products: The demand for organic products is increasing due to the strong interest from affluent consumer groups and young mothers. However, imports of fresh organic produce is unlikely in any near future due to the mandatory fumigation treatment required for imported fresh vegetables and fruits infested with bugs.

C. Products Not Present Because They Face Significant Barriers

Imports of many U.S. fresh fruits, including apples, fresh berries, pomegranates, and mangos, are prohibited as there is no bilateral quarantine treaty between the U.S. and Korea. Other products, including rice, honey, fresh potatoes, fresh onions, and pop-corn, are subject to import quota barrier that restricts volume and access to the market.

V. Key FAS/USDA Contacts and Further Information

? For further information about the Korean agricultural market, please contact:

U.S. Agricultural Trade Office

Korean Address: Room 303, Leema Building, 146-1, Susong-dong, Chongro-ku, Seoul 110-140, Korea

U.S. Mailing Address: US Embassy Seoul, Unit 15550-ATO, APO, AP 96205-5550

Telephone: 82-2 397-4188 Fax: 82-2 720-7921

E-mail: atoseoul@usda.gov

Website: www.atoseoul.com

Agricultural Affairs Office

Korean Address: U.S. Embassy, 82, Sejong-ro, Chongro-ku, Seoul, Korea

U.S. Mailing Address: US Embassy Seoul, Unit 15550-AgAff, APO, AP 96205-5550

Telephone: 82-2 397-4297 Fax: 82-2 738-7147

E-mail: agseoul@usda.gov

? For more information on how you can register for USDA/FAS' Supplier List:

The United States Department of Agriculture's Foreign Agricultural Service (USDA/FAS) offers information and services that can be beneficial to both new and experienced exporters. For example, the U.S. Suppliers Service is a searchable database of over 5,000 U.S. exporters and their products, which is used by USDA/FAS to help facilitate connecting potential buyers with U.S. suppliers. More than 85 USDA/FAS offices overseas use this database to help export agents, trading companies, importers and foreign market buyers to locate U.S. suppliers. It is also used to recruit U.S. exporters to participate in market development activities sponsored by USDA and federal export programs. You can register online for this service at: <http://www.fas.usda.gov/agexport/exporter.html> or contact:

AgConnections Team

AgExport Services Division, Foreign Agricultural Service, Washington, D.C.

Telephone: 202-690-4172 Fax: 202-205-2963

E-mail: joyce.estep@usda.gov

Website: www.fas.usda.gov/agx/agx.html

? For further information about sanitary and phytosanitary requirements, please contact:

U.S. Animal Plant and Health Inspection Service (APHIS)

Korean Address: Room 303, Leema Building, 146-1, Susong-dong, Chongro-ku, Seoul, Korea

U.S. Mailing Address: US Embassy Seoul, Unit 15550-APHIS, APO, AP 96205-5550

Telephone: 82-2 725-5495

Fax: 82-2 725-5496

E-mail: aphis@kornet.net

Website: www.aphis.usda.gov

? For information about activities by State Regional Trading Groups, please contact:

Mid-America International Agri-Trade Council (MIATCO)

400 West Erie Street, Suite 100, Chicago, IL 60610

Telephone: 312-944-3030

Fax: 312 944-1144

E-mail: eriggs@miatoco.org

Website: www.miatco.org

Western United States Agricultural Trade Association (WUSATA)

2500 Main Street, Suite 110, Vancouver, WA 98660-2697

Telephone: 360-693-3373

Fax: 360-693-3464

E-mail: bruce@wusata.org

Website: www.wusata.org

Food Export USA - Northeast Region of the United States

150 S. Independence Mall West, 1036 Public Ledger Building

Philadelphia, PA 19106

Telephone: 215-829-9111

Fax: 215-829-9777

E-mail: jcanono@foodexportusa.org

Website: www.foodexportusa.org

Southern United States Agricultural Trade Association (SUSTA)

2 Canal Street Suite 2515, New Orleans, LA 70130

Telephone: 504-568-5986

Fax: 504-568-6010

E-mail: jim@susta.org

Website: www.susta.org

? For information on the commercial and industrial products in Korea, which includes farm machinery, cosmetic and pharmaceuticals, please contact:

U.S. Commercial Service

Korean Address: U.S. Embassy, 82, Sejong-ro, Chongro-ku, Seoul, Korea

U.S. Mailing Address: US Embassy Seoul, Unit 15550-USCS, APO, AP 96205-5550

Telephone: 82-2 397-4535

Fax: 82-2 739-1628

E-mail: Seoul.office.box@mail.doc.gov Homepage: www.buyusa.gov/korea